

**SANILAC TRANSPORTATION CORPORATION**  
**Carsonville, Michigan**

**Component Units' Financial Statements**

**Annual Financial Report**

**September 30, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sanilac Transportation Corporation	County Sanilac
Fiscal Year End 9/30/06	Opinion Date 01/26/06	Date Audit Report Submitted to State 03/30/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

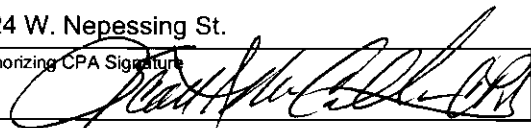
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No conditions requiring comments		
Other (Describe)	<input type="checkbox"/>	Not Required		
Certified Public Accountant (Firm Name) ROBSON & McCALLUM, CPA'S		Telephone Number 810-664-2961		
Street Address 624 W. Nepessing St.		City LAPEER	State MI	Zip 48446
Authorizing CPA Signature 		Printed Name SCOTT A. McCALLUM		License Number 15463

Sanilac Transportation Corporation  
Annual Financial Report  
For the Fiscal Year Ended September 30, 2006

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Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Sanilac Transportation Corporation  
Carsonville, Michigan 48419

We have audited the component unit financial statements of the Sanilac Transportation Corporation, a component unit of the County of Sanilac, as of and for the year ended September 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the management of the Corporation and the County of Sanilac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements present fairly, in all material respects, the financial position of the Sanilac Transportation Corporation at September 30, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated January 26, 2007 on our consideration of Sanilac Transportation Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the component unit financial statements of Sanilac Transportation Corporation, County of Sanilac, taken as whole. The accompanying financial information listed as supplementary financial information in the table of contents, including the Schedule of Federal and State Financial Assistance as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of Sanilac Transportation Corporation. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sanilac Transportation Corporation has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

Robson and McCallum  
January 26, 2007

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

The management of Sanilac Transportation Corporation (STC) offers this narrative overview and analysis of the financial activities to the readers of our basic financial statements for the fiscal year ended September 30, 2006. This discussion and analysis is intended to give the reader an insight as to scope and focus of our financial issues and activities and the significance of those issues and their impact on our financial position. Readers are encouraged to consider this information in conjunction with the financial statements for a more clear vision of our operation.

STC is structured as a private, not-for-profit corporation and contracts with Sanilac County to provide Demand Response public transportation to its citizens. State Operating originates at the state level from the Comprehensive Transportation Fund provided by Act No. 51 of the Public Acts of 1951, Section 18 of the Urban Mass Transportation Act of 1964, and is based on eligible expenses. Federal Operating is dispersed through the Michigan Dept. of Transportation using Section 5311 funds, also based on eligible expenses. Capital Funding is obtained from several sources, including State distribution of Federal funds, Section 5309 capital funding obtained through the earmarking system, and State matching funds.

### ***Overview of Financial Highlights***

- Sanilac Transportation has net assets of \$ 862,416.00 at fiscal year end 2006. These net assets result from the difference between total assets of \$928,419.00 and total liabilities of \$66,003.00.
- 
- Current assets of \$ 455,255.00 primarily consist of non-restricted cash and savings of \$349,197.00 and government receivables of \$73,119.00
- 
- Current liabilities of \$ 39,677.00 primarily consist of accounts payable of \$25,812.00, accrued compensation of \$9,219.00; and accrued compensated absences of \$ 4,646.00.

### ***Basic Financial Statements and Presentation***

The basic financial statements presented by the Sanilac Transportation Corporation are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the full accrual basis of accounting; recognizing revenues when earned and measurable and expenses when incurred. All capital assets purchased over the amount of \$5,000 are capitalized and depreciated over their estimated useful lives using state and federal guidelines.

The *Statement of Net Assets* presents information on all of the Agencies assets and liabilities. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Agency's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses.

The *Statement of Cash Flows* indicates the extent to which the Agency has the ability to generate sufficient cash flow to adequately meet its obligations in a timely manner. This statement is divided into four classifications: 1) Cash flows from operating activities; 2) Cash flows from non-capital financing activities; 3) Cash flows from capital and related financing activities; and 4) Cash flows from investing activities.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

### Financial Analysis of the Corporation

The following is a *Condensed Summary of Net Assets* as compared to Fiscal Year 2005. The bulk of which reflects investment into buses used for the transportation services for the Sanilac County area.

	2005	2006
Current Assets (Cash, Accounts Receivable, Due from Federal Sources, Due from State Sources, Prepaid Expenses)	\$ 322,938	\$ 455,255
Capital Assets (net of accumulated depreciation) (Land, Leasehold Improvements, Furniture/Fixtures, Equipment, Revenue and Other Vehicles.	<u>524,974</u>	<u>473,164</u>
<b>Total Assets</b>	<b><u>\$ 847,912</u></b>	<b><u>\$ 928,419</u></b>
Current Liabilities (Accounts payable, Compensated Absences, Accrued Wages)	\$ 31,215	\$ 39,677
Other Liabilities (Compensated Absences)	<u>14,755</u>	<u>26,326</u>
<b>Total Liabilities</b>	<b><u>\$ 45,970</u></b>	<b><u>\$ 66,003</u></b>
Net Assets:		
Investment in Capital Assets	\$ 524,974	\$ 473,164
Unrestricted	<u>276,968</u>	<u>389,252</u>
<b>Total Net Assets</b>	<b><u>\$ 801,942</u></b>	<b><u>\$ 862,416</u></b>

The following is a *Condensed Summary of Revenues, Expenses and Changes in Net Assets* as compared to Fiscal Year 2005.

	2005	2006
Operating Revenues	\$ 431,971	\$ 514,378
Operating Expenses	<u>(1,048,403)</u>	<u>(1,152,513)</u>
<b>Operating Loss</b>	<b><u>\$ (616,432)</u></b>	<b><u>\$ (638,135)</u></b>
Non-operating Revenues	<u>458,648</u>	<u>698,609</u>
<b>Increase (Decrease) in Net Assets</b>	<b><u>\$ (157,784)</u></b>	<b><u>\$ 60,474</u></b>
Net Assets – October 1, 2004	<u>959,726</u>	<u>801,942</u>
Net Assets – September 30, 2005	<b><u>\$ 801,942</u></b>	<b><u>\$ 862,416</u></b>

### Fixed Assets

The *Major classes of property and equipment* consist of the following:

	Useful Lives	Purchased with Corporate Funds	Purchased with Capital Grants	Total
Land	N/A	\$ 50,221	\$ 0	\$ 50,221
Furniture and Office Equipment	5-10 years	25,827	62,167	87,994
Leasehold Improvements	10-20 years	32,371		32,371
Vehicles	5-7 years	26,995	1,203,507	1,230,502
Equipment	5-10 years	<u>8,137</u>	<u>41,186</u>	<u>49,323</u>
<b>Subtotal</b>		<b><u>\$ 143,551</u></b>	<b><u>\$ 1,306,860</u></b>	<b><u>\$ 1,450,411</u></b>
Less Accumulated Depreciation		<u>(74,400)</u>	<u>(902,847)</u>	<u>(977,247)</u>
<b>Net Property &amp; Equipment</b>		<b><u>\$ 69,151</u></b>	<b><u>\$ 404,013</u></b>	<b><u>\$ 473,164</u></b>

### ***Financial Operating Results***

*Operating Revenues* are summarized into the following categories:

*Special Transit Fares* are paid monthly, under contract, and based on a predetermined dollar amount. FY2006 resulted in \$306,000 from Community Mental Health and \$165,000 from the Intermediate School District for transportation to and from school, training and other program sites. STC tracks the rides provided for these entities and reports on ridership on a quarterly basis. Contracts for this service are on file at the STC offices.

*Fare box revenues* consist of individual fares and fares purchased by other agencies on a per ride basis. Payment consists of cash, pre-purchased tickets and tickets presented and billed for. Agencies such as the Human Development Commission, Family Independence Agency, Michigan Works and the Recycling Center represent the bulk of tickets presented and billed for.

*Freight Income* results from the delivery of packages and is a very minute part of total income. Packages are delivered secondary to our passengers, and passengers are never left unattended during the delivery process. Revenue from package delivery is an ineligible expense for the purpose of State and Federal Operating formula funding.

*Non-Operating Revenues* are summarized into the following categories:

*Federal Grants and Reimbursements* in the amount of \$166,523 paid from Section 5311 funds and based on eligible expenses. FY2006 reimbursement rate has been determined to be seventeen percent (17%).

*State Operating Grants* are allocated by the Michigan Department of Transportation based on eligible expenses submitted by all Michigan transit agencies. Funds are allocated three times. First based on Statewide budgets, re-allocated based on transit reconciliations that take place about two months after the end of the grantee agency's fiscal year, and a third time based on annual audits which are due six months after the grantee's fiscal year end.

*Contributed Services* for Sanilac Transportation consists of workers provided by the Thumb Area Employment Development Tool Chest Voucher System Work Experience Opportunities/Workfare Service Enhancement program, and provides a bus washer. This Workfare Service Enhancement is used to improve each client's general employability for transition into the regular workforce. The service is unpredictable and is eliminated as an eligible expense after the FY2006. An approved cost allocation plan is required and on file at the STC offices.

*Advertising income* is generated through the sale of advertisements that are sold and placed on the exterior of the vehicles. Sanilac Transportation contracts with various entities on a per month basis, with a minimum contract length of one year. Advertisers incur all costs associated with the production and installation of the vinyl product.

*Other Non-Transportation Revenues* consist of interest on savings and billing fees, which are charged at a rate of five dollars (\$5) per billing cycle, which is one month. Also, when the Thumb Area Michigan Works Workfare Service Enhancement service provides STC with bus washers we are paid one hundred dollars (\$100) per week to cover host site oversight responsibilities. Part of this includes orienting the client on the expectations of having a job, general oversight and evaluation. The client is afforded the opportunity to build a resume and obtain positive recommendations on future job opportunities. This amounted to an income of \$2500 for FY2006.

*Operating Expenses* are summarized into the following categories.

*Labor and Fringe Benefits*, at 57.33% of total expenses, are the largest expense, as should be in a service industry business. They consist of a Director, a part-time Administrative Assistant, one full time certified Mechanic, two full time dispatchers, nine full time drivers, three part time drivers and a substitute driver. Full time benefits are available to an employee working thirty or more hours on a regular basis. Benefits include Health Insurance, Disability and Life Insurance, Paid Time Off, and an employer matched employee deferral plan; in addition to the traditional payroll taxes and Workers Compensation. As is true in most, if not all, industries, the cost of health care has been on the rise for several years, more than doubling in the last four years alone, and makes up the lions share of Benefits expense. STC recently switched from BCBS to a similar MERS program at a substantial savings.

*Service Expenses* include such things as advertising, towing, tire repair, service agreements for radio system and copy machine, custodian, payroll services, audit services, physicals and drug testing. This makes up 4.02% of total expenses.

*Materials and Supplies* consist of fuel, lubricants, tires, parts and other maintenance and office supplies. Maintenance supplies are 16.55% of total expenses and fuel is 63.50% of that. The tax-less price of fuel has more than doubled in the last four years and continues to be the largest expense in this category.

*Insurance* is through the Michigan Transit Pool – Liability Trust Fund, and the Michigan Transit Pool – Direct Property Damage Trust Fund. The Michigan Transit Pool is a self insurance group of Michigan Transit Agencies. The Liability Trust Fund premiums are determined by a formula using Passengers/Miles/Hours. The Direct Property Damage Trust Fund results in an effective deductible of \$10,000, with the excess shared liability among members up to \$100,000, when the excess catastrophic comprehensive coverage kicks in. This program has traditionally been more cost effective than traditional insurance methods. Other insurance is made up of Public Liability, Errors and Omissions and General Liability. All of these are purchased from local vendors.

*Other Miscellaneous Expenses* include electricity, heating fuel, telephones, travel and meetings, dues and subscriptions and rent. STC leases office and maintenance space for its operations at a rate of \$1500 per month.

### ***Non-Financial and Other Miscellaneous Information***

*Sanilac Transportation* provided 87,663 rides in FY2006. Of that 69,482 were persons with handicaps, 6,981 were senior citizens. We used thirteen (13) vehicles which traveled 432,852 miles during its 248 days of operations, using 51,992 gallons of diesel fuel. We cover the entire 963 square miles that is Sanilac County. It is the largest land mass county in the lower peninsula of Michigan, and has a population of just over 44,500 residents. We are located in what is known as "the thumb" of Michigan. Sandusky is the County Seat and houses most of the services our clients need to get to. Sanilac Transportation is located in Carsonville, which is seven miles east of Sandusky.

*Sanilac County* is a rural area, and many of the necessary services are not available within its boundaries. Getting our residents to those necessary services has been a challenge we are working diligently on solving. To that end, with FY2004 Federal Section 5313(b) funding grant for a community-wide coordination study, known as the County Connection Ride Provide project. This Grant is for \$34,400 Federal and \$8,600 State matching funds and is intended to study the service needs, the available resources and how all of the county resources could be coordinated to provide a more effective, efficient system. The expected completion date of the project is December of 2007.

Sanilac Transportation, for the County of Sanilac, is currently in the process of building a *new transit facility*. We are working with an architect to design the building that will consist of office space, dispatching center, maintenance garage, wash bay and vehicle storage. In January of 2003 we used local funds to purchase three and a half acres of land on Stoutenburg Rd., on the eastern edge of the City of Sandusky. The property has been properly zoned and a Phase I environmental study has been completed, along with a land and topographical survey. Since that time we have received Federal Section 5309 Grant funding and State Match Dollars in the amounts of \$175,000, \$121,360, \$618,750 and are awaiting final word on another \$375,000. In addition, we have been granted a State Infrastructure Bank Loan in the amount of \$850,000. We will be seeking future grants to pay back this loan. We have commitments for another \$128,000 from the Rural Task Force for furniture and equipment for this facility, as well.

The *overall benefit of this project* is that it will enable us to operate in a much more efficient and effective manner. Our service covers the entire 963 square miles of Sanilac County. Since Sandusky is the county seat and it houses most of the services that our citizens need to access, our service centers around Sandusky. We are located eight miles from Sandusky. This causes our buses to "dead head" those eight miles at the beginning and end of each run. This amounts to over 200 miles, and over seven hours per day. Those miles and hours could be more efficiently used to provide service to the residents of the county. The new facility will be located on the eastern edge of Sandusky, with easy access in each direction. We chose a location that put us close to the services our customers need to access, without putting us in the middle of a congested traffic area. We believe our facility will fit well into the future plans of the area. We will have easy access to all points of the county from this location.



**SANILAC TRANSPORTATION CORPORATION**

**STATEMENT OF NET ASSETS**

**September 30, 2006**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 349,197
Accounts Receivable	5,022
Due From Federal Sources	49,647
Due From State Sources	23,472
Prepaid Expenses	<u>27,917</u>

**Total Current Assets** **\$ 455,255**

**Property and Equipment**

Land	\$ 50,221
Leasehold Improvements	32,371
Office Furniture and Equipment	87,994
Equipment	49,323
Vehicles	
Revenue	1,201,633
Other	<u>28,869</u>

**Total Property and Equipment** **\$ 1,450,411**

**Less: Accumulated Depreciation** **(977,247)**

**Net Capital Assets** **\$ 473,164**

**Total Assets** **\$ 928,419**

**LIABILITIES**

**Current Liabilities**

Accounts Payable	\$ 25,812
Compensated Absences	4,646
Accrued Wages	<u>9,219</u>

**Total Current Liabilities** **\$ 39,677**

**Other Liabilities**

Compensated Absences	<u>26,326</u>
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**Total Liabilities** **\$ 66,003**

**NET ASSETS**

Investment in Capital Assets	\$ 473,164
Unrestricted	<u>389,252</u>

**Total Net Assets** **\$ 862,416**

**SANILAC TRANSPORTATION CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended September 30, 2006**

Operating Revenues	\$ 514,378
Operating Expenses	<u>(1,152,513)</u>
Operating Loss	\$ (638,135)
Nonoperating Revenues	<u>698,609</u>
Decrease in Net Assets	\$ 60,474
Net Assets - October 1, 2005	<u>801,942</u>
Net Assets - September 30, 2006	<u><u>\$ 862,416</u></u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**STATEMENT OF CASH FLOWS**  
Year Ended September 30, 2006

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

Cash Flows From Operating Activities

Cash From Customers	\$ 510,494
Payment to Suppliers	(533,415)
Payment to Employees	<u>(450,508)</u>
Net Cash Used by Operating Activities	<u>\$ (473,429)</u>

Cash Flows From Non-Capital Financing Activities

Cash From State Operating Assistance	\$ 475,391
Cash From Federal Operating Assistance	<u>172,040</u>
Net Cash Flows Provided by Non-Capital Financing Activities	<u>\$ 647,431</u>

Cash Flows From Capital and Related Financing Activities

Capital Grants - State	\$ 17,383
Capital Grants - Federal	69,532
Purchase of Capital Assets	<u>(96,689)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>\$ (9,774)</u>

Cash Flows From Investing Activities

Interest Earned	<u>8,347</u>
Net Decrease in Cash	\$ 172,575
Cash - October 1, 2005	<u>176,622</u>
Cash - September 30, 2006	<u>\$ 349,197</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (638,135)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	148,499
(Increase) Decrease in	
Accounts Receivable - Customers	(3,884)
Prepaid Expenses	58
Increase (Decrease) in	
Accounts Payable	5,490
Accrued Payroll	1,565
Compensated Absences	<u>12,978</u>
Net Cash Used by Operating Activities	<u>\$ (473,429)</u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**DESCRIPTION OF REPORTING ENTITY:**

As a component unit of the County of Sanilac, the Corporation has entered into a contract with the County to operate a county-wide transportation system with financial assistance provided by Act No. 51 of the Public Acts of 1951, Section 18 of the Urban Mass Transportation Act of 1964.

The accounting policies of Sanilac Transportation Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

**SCOPE OF REPORTING ENTITY:**

In accordance with the provisions of the Governmental Accounting Standards Board Statement #14, "Defining the Governmental Reporting Entity," the component unit financial statements of Sanilac Transportation Corporation contain all the Corporation's executive or legislative branches. Control by or dependence on the Corporation was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Corporation, obligations of the Corporation to finance any deficits that may occur, receipt of significant subsidies from the Corporation, disposition of surplus funds and scope of public service.

The Corporation has no oversight responsibility, accordingly, there are no other governmental entities included in its general purpose financial statements.

**BASIS OF ACCOUNTING:**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable; expenditures are recognized when they become a liability. Enterprise funds are accounted for using the full accrual basis of accounting. The full accrual basis of accounting provides that revenues are recorded when earned and expenditures are recorded when the liability is incurred.

**PROPRIETARY FUNDS:**

Enterprise Funds - Enterprise Funds are used to account for operations (A) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CASH, CASH EQUIVALENTS, AND INVESTMENTS:**

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity date of three months or less when acquired are considered to be cash equivalents.

**CASH AND INVESTMENTS:**

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Corporation. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than fifty percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2006

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**RISK FINANCING:**

The Sanilac Transportation Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The Corporation is a member of the Michigan Transit Pool (a group self insurance pool) to account for and finance these risks of loss. Currently, the pool has two separate loss protection programs known as the Liability Coverage Program and the Direct Property Damage Coverage Program. The Liability Coverage Program provides coverage for motor vehicle liability as required by state law and general liability coverage. The Direct Property Damage Coverage Program provides coverage for collision losses, comprehensive losses, and losses of use.

Payments ("premiums") charged to members participating in the Liability Coverage Program and the Direct Property Damage Coverage Program are determined in amounts pursuant to cost allocation plans for each program. However, both of the programs involve the transferring of risk of loss amongst members, and premiums are subject to retrospective adjustments to prior years. Since liability claims can remain pending for many years, several retrospective adjustments for each program year are likely. Under most circumstances, the Corporation's maximum loss per occurrence is limited as follows:

	<u>DEPOSIT PREMIUMS</u>	<u>MAXIMUM RETENTION PER OCCURRENCE</u>	<u>COVERAGE LIMIT PER OCCURRENCE</u>
Motor vehicle and General Liability	\$ 36,660	\$ 100,000	\$ 1,000,000
If a loss is greater than the retention amount, the difference is covered by excess insurance carriers.			
Direct Property Damage	\$ 8,881	\$ 10,000	Book Value of Property

Members pay the first \$2,000 of each loss. The next \$8,000 is also the member's responsibility, but comes from the member's premium deposit. Loss amounts above \$10,000 are pooled, and shared between all program members, based upon the relative book values of each respective member. Comprehensive losses over \$50,000 are covered by the excess insurance carrier.

The Corporation reports its required contribution to these programs as insurance expense for the period of coverage. Additional assessments which are considered likely are accrued in accordance with FASB Statement No. 5. Any dividends or returns of contributions are recognized as a reduction of expense at the time the dividend is declared.

**CASH AND INVESTMENTS:**

The Corporation's deposits are in accordance with statutory authority.

**CUSTODIAL CREDIT RISK**

At September 30, 2006, the balance sheet carrying amount of deposits was \$349,197. The bank balance as of September 30, 2006 was \$374,114, of which \$262,263 was covered by FDIC insurance and \$148 was insured by the National Credit Union Administration.

At no time during the fiscal year did the Corporation's pension plan investment portfolio use derivative instruments or products.

**ACCOUNTS RECEIVABLE:**

Receivables have been recognized for all significant amounts due the Corporation. Valuation reserves have not been provided because the collection thereof is not considered doubtful.

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006**

**DETAILED NOTES ON ALL FUNDS:**

**PROPERTY AND EQUIPMENT:**

Property and equipment are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method. For all fixed assets purchased with grant funds, depreciation is charged against contributed capital. For all assets purchased with operating funds, depreciation is expensed.

**FIXED ASSETS:**

Major classes of property and equipment consist of the following:

	<u>USEFUL LIVES</u>	<u>PURCHASED WITH CORPORATE FUNDS</u>	<u>PURCHASED WITH CAPITAL GRANTS</u>	<u>TOTAL</u>
Land	N/A	\$ 50,221	\$ -0-	\$ 50,221
Furniture and Office Equipment	5-10 Years	25,827	62,167	87,994
Leasehold Improvements	10-20 Years	32,371		32,371
Vehicles	5-7 Years	26,995	1,203,507	1,230,502
Equipment	5-10 Years	8,137	41,186	49,323
Subtotal		\$143,551	\$1,306,860	\$1,450,411
Less: Accumulated Depreciation		<u>(74,400)</u>	<u>(902,847)</u>	<u>(977,247)</u>
Net Property and Equipment		<u>\$ 69,151</u>	<u>\$ 404,013</u>	<u>\$ 473,164</u>

Additions and Disposal for the year ended September 30, 2006 are as follows:

	<u>BALANCE 10/01/05</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE 9/30/06</u>
Capital Assets Not Being Depreciated				
Land	\$ 49,336	\$ 885	\$ -0-	\$ 50,221
Capital Assets Being Depreciated				
Furniture and Office Equipment	\$ 78,394	\$ 9,600	\$ -0-	\$ 87,994
Leasehold Improvements	32,371			32,371
Vehicles	1,146,125	84,377		1,230,502
Equipment	47,496	1,827		49,323
Total Capital Assets Being Depreciated	<u>\$ 1,304,386</u>	<u>\$ 95,804</u>	<u>\$ -0-</u>	<u>\$ 1,400,190</u>
Less Accumulated Depreciation for				
Furniture and Office Equipment	\$ 70,336	\$ 4,775	\$ -0-	\$ 75,111
Leasehold Improvements	25,364	1,320		26,684
Vehicles	686,617	141,235		827,852
Equipment	46,431	1,169		47,600
Total Accumulated Depreciation	<u>\$ 828,748</u>	<u>\$ 148,499</u>	<u>\$ -0-</u>	<u>\$ 977,247</u>
Total Capital Assets Being Depreciated, Net	<u>475,638</u>	<u>(52,695)</u>	<u>-0-</u>	<u>422,943</u>
Total Governmental Activity Assets, Net	<u>\$ 524,974</u>	<u>\$ (51,810)</u>	<u>\$ -0-</u>	<u>\$ 473,164</u>

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006**

**DETAILED NOTES ON ALL FUNDS: (Continued)**

**DEFERRED COMPENSATION:**

Sanilac Transportation Corporation offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of Sanilac Transportation Corporation for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in Sanilac Transportation Corporation's financial statements. Employer contributions for the year were \$4,665.

**COMPENSATED ABSENCES:**

Vacation leave is earned in varying amounts depending on the employee's number of years of service and is made available to the employees monthly, not to exceed a total accumulation of twenty days. Sick leave is accumulated at the rate of ½ day for each month of service, not to exceed a total accumulation of twenty days each is determined on the employee's anniversary date.

**USE OF ESTIMATES:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RIDERSHIP INFORMATION:**

Ridership information is recorded daily. The bus odometers are read each evening by the manager and the mileage for that day is recorded on the respective bus mileage log. In addition, each day the driver records the number and type of riders on a driver's log. Drivers' logs are turned in to the manager at the end of the day. These records provide the ridership figures for the quarterly operating reports submitted to the State.

**DESCRIPTION OF LEASING ARRANGEMENT:**

The Corporation conducts all of its operations from leased facilities which include an office and a storage building. The lease is classified as an operating lease. The rental payments under the terms of the lease are based upon a monthly minimum rental. The Corporation can amend or extend the lease terms by endorsement of the lessor and lessee. The Corporation is responsible for liability and fire loss insurance and utilities on leased facilities. The status of the lease as of September 30, 2006 is on a month to month basis at a rate of \$1500 per month.

**SANILAC TRANSPORTATION CORPORATION**

**OPERATING REVENUES**

**Year Ended September 30, 2006**

**Schedule 1**

Operating Revenues

Special Transit Fares	\$ 471,000
Customer Fares and Ticket Sales	33,092
Freight Income	213

Non-Transportation Revenue

Advertising Revenue	1,404
Refunds, Oversight and Billing Fees	2,725
Contributed Services	<u>5,944</u>

Total Operating Revenues	<u>\$ 514,378</u>
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**SANILAC TRANSPORTATION CORPORATION****OPERATING EXPENSES**

Year Ended September 30, 2006

**Schedule 2**

	<b><u>OPERATIONS</u></b>	<b><u>MAINTENANCE</u></b>	<b><u>GENERAL ADMINISTRATION</u></b>	<b><u>TOTAL SYSTEM</u></b>
Operating Expenses				
Labor				
Operator Wages	\$ 292,012	\$ -0-	\$ -0-	\$ 292,012
Other Wages	22,498	32,671	51,568	106,737
Dispatcher Wages	66,302			66,302
Fringe Benefits	158,899	17,751	19,081	195,731
Advertising			1,860	1,860
Services	2,065	17,731	26,642	46,438
Materials and Supplies Consumed				
Fuel and Lubricants	121,138			121,138
Tires and Tubes	8,895			8,895
Other Materials and Supplies		60,719	10,802	71,521
Utilities	1,746	5,273	7,257	14,276
Casualty and Liability Costs				
Premiums for Public Liability and Property Damage Insurance	33,985			33,985
Premiums - Other Corporate Insurance			11,556	11,556
Miscellaneous				
Travel, Meetings, and Training	3,430		3,627	7,057
Dues and Subscriptions			1,098	1,098
Other Expenses	205	72	7,131	7,408
Leases and Rentals		12,000	6,000	18,000
Depreciation and Amortization	<u>139,406</u>	<u>2,998</u>	<u>6,095</u>	<u>148,499</u>
Total Operating Expenses	<u>\$ 850,581</u>	<u>\$ 149,215</u>	<u>\$ 152,717</u>	<u>\$ 1,152,513</u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**

**NONOPERATING REVENUES**

**Year Ended September 30, 2006**

**Schedule 3**

**Nonoperating Revenues**

**State of Michigan Grants**

Operating Assistance (Act 51) 1999 - 2000	\$ 13,292
Operating Assistance (Act 51) 2000 - 2001	4,103
Operating Assistance (Act 51) 2003 - 2004	6,336
Operating Assistance (Act 51) 2004 - 2005	13,061
Operating Assistance (Act 51) 2005 - 2006	388,479
Operating Contract 02-0083/Z5	1,811
Capital Assistance 020592	<u>17,383</u>

Total State Grants \$ 444,465

**Federal Grants**

Contract - 02-0083/Z5 - Section 5313(b)	\$ 7,246
Contract - 02-0083/Z9 - Section 5311	166,523
Capital Assistance - 02-0592	69,532
Rural Transit Assistance Program	<u>2,496</u>

Total Federal Grants \$ 245,797

Interest Income 8,347

Total Nonoperating Revenues \$ 698,609

**SANILAC TRANSPORTATION CORPORATION**  
**SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS**  
Year Ended September 30, 2006  
Schedule 4

	<b>RURAL TRANSIT ASSISTANCE PROGRAM</b>	<b>OPERATIONS</b>	<b>TOTAL</b>
Labor	\$ -0-	\$ 465,051	\$ 465,051
Fringe Benefits		195,731	195,731
Advertising		1,860	1,860
Services		46,438	46,438
Materials and Supplies		201,554	201,554
Utilities		14,276	14,276
Casualty and Liability Costs		45,541	45,541
Miscellaneous Expense	2,496	13,067	15,563
Lease and Rentals		18,000	18,000
Depreciation		<u>148,499</u>	<u>148,499</u>
Total	<u>\$ 2,496</u>	<u>\$1,150,017</u>	<u>\$1,152,513</u>

**SANILAC TRANSPORTATION CORPORATION**  
**NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS**  
Year Ended September 30, 2006  
Schedule 5

	<b>FEDERAL SECTION 5311</b>	<b>STATE OPERATING ASSISTANCE</b>
Expenses		
Labor	\$ 465,051	\$ 465,051
Fringe Benefits	195,731	195,731
Advertising	1,860	1,860
Services	46,438	46,438
Materials and Supplies	201,554	201,554
Utilities	14,276	14,276
Casualty and Liability Costs	45,541	45,541
Miscellaneous	13,067	13,067
Leases and Rentals	18,000	18,000
Depreciation	<u>148,499</u>	<u>148,499</u>
Total Expenses	<u>\$ 1,150,017</u>	<u>\$ 1,150,017</u>
Less: Cost of 2003-2004 Audit	\$ 4,150	\$ -0-
Ineligible Dues	139	139
Depreciation	143,584	143,584
Adjustment to Accounts Receivable - State Assistance	6,671	6,671
Expenses Reimbursed by Contract 02-0083Z5	9,057	9,057
Expenses Reimbursed by Contract 02-0592	710	710
Contributed Services	<u>5,944</u>	<u></u>
Total Ineligible Expenses	<u>\$ 170,255</u>	<u>\$ 160,161</u>
Less: Non-Transportation Revenue	<u>\$ 213</u>	<u>\$ 213</u>
Net Eligible Expenses	<u>\$ 979,549</u>	<u>\$ 989,643</u>
Maximum Section 5311 Reimbursement (17.0%)	<u>\$ 166,523</u>	
Preliminary Reimbursement (39.2545%)		<u>\$ 388,479</u>
 <u>MANDATORY FLOOR:</u> State operating assistance for fiscal year 1997		 <u>\$ 311,240</u>

**SANILAC TRANSPORTATION CORPORATION**  
**DETAIL OF INELIGIBLE EXPENSES AND REVENUES**

Year Ended September 30, 2005  
Schedule 6

**INELIGIBLE EXPENSES:**

Costs reimbursed for a county-wide coordination study with grant fund monies is an ineligible expense. A percentage of dues paid to MASSTrans are ineligible. Expenses reimbursed under Capital Contract 02-0592 are ineligible. During the fiscal year 2005-2006, certain Act 51 receivables were written off. That write off is an ineligible expense.

**NON-TRANSPORTATION REVENUE:**

Freight tariffs and expense reimbursements under Michigan Works and other local agreements are deducted as ineligible project revenue for Federal Section 5311 and State Operating Assistance.

Freight Income	\$ 213
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**NOTE:**

Since the Company did not expend more than \$300,000 in federal funds during the fiscal year 2005, the \$4125 cost of the audit is not eligible for federal reimbursement.

**SANILAC TRANSPORTATION CORPORATION**  
**MILEAGE DATA (UNAUDITED)**  
**Year Ended September 30, 2006**  
**Schedule 7**

**PUBLIC**  
**TRANSPORTATION**  
**MILEAGE**

Demand - Response

1st Quarter - December 31, 2005	102,583
2nd Quarter - March 31, 2006	109,962
3rd Quarter - June 30, 2006	117,848
4th Quarter - September 30, 2006	<u>102,459</u>
Total Demand - Response	<u><u>432,852</u></u>
Total Operation	<u><u>432,852</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reasonable method for recording vehicle mileage.

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE**  
Year Ended September 30, 2006  
Schedule 8

FEDERAL CFDA NUMBER	STATE GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	CURRENT YEAR (DEFERRED) REVENUE 10/1/05	CURRENT YEAR RECEIPTS/ REVENUE RECOGNIZED	ACCRUED EXPENDITURES AND ADJUSTMENTS	(DEFERRED) REVENUE AT 09/30/06
20.509	02-0083/Z9	\$ 166,523	\$ -0-	\$ 124,521	\$ 166,523	\$ 42,002
	02-0083/Z8		26,943	27,553		(610)
	02-0083/Z6		7,808			7,808
	02-0083/Z4		5,262	4,815		447
20.515	02-0083/Z5	34,400	4,554	11,800	7,246	-0-
20.509			855	3,351	2,496	-0-
20.513	02-0592	69,532	-0-	69,532	69,532	-0-
		<u>\$ 270,455</u>	<u>\$ 45,422</u>	<u>\$ 241,572</u>	<u>\$ 245,797</u>	<u>\$ 49,647</u>
Total Federal Financial Assistance						
		\$ 388,479	\$ -0-	\$ 382,818	\$ 388,479	\$ 5,661
			8,629	11,019	13,061	10,671
			31,786	38,122	6,336	-0-
			8,885	1,745		7,140
			5,896	5,896		-0-
			5,254	9,357	4,103	-0-
			10,192	23,484	13,292	-0-
		8,600	1,139	2,950	1,811	-0-
	02-0083/Z5					
	02-0592	17,383		17,383	17,383	-0-
		<u>\$ 414,462</u>	<u>\$ 71,781</u>	<u>\$ 492,774</u>	<u>\$ 444,465</u>	<u>\$ 23,472</u>
Total State Financial Assistance						
		<u>\$ 684,917</u>	<u>\$ 117,203</u>	<u>\$ 734,346</u>	<u>\$ 690,262</u>	<u>\$ 73,119</u>
Total Federal and State Financial Assistance						



**ROBSON AND McCALLUM**  
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Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Sanilac Transportation Corporation  
Lapeer County, Michigan

We have audited the basic financial statements of the Sanilac Transportation Corporation as of and for the year ended September 30, 2006, and have issued our report thereon dated January 26, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Sanilac Transportation Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sanilac Transportation Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robson & McCallum, CPA's  
January 26, 2007